U. S. SENATE

Republican Policy Committee

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__Why a Balanced Budget Amendment Is Essential Now__

Hard Fiscal Truths That Will Not Go Away

15 Percent of All Federal Spending Goes For Interest

In **1965**, the Federal Government paid $8.6 billion in interest (**7.3 percent** of total **outlays**). In **1995**, the Government paid $232.2 billion in interest (**15.3 percent** of its **outlays**). [Table E-6]

40 Cents of Every Income Tax Dollar Goes For Interest

In **1965**, interest costs amounted to **17.6 percent** of all individual **income taxes** paid. In **1995**, the $232.2 billion in interest costs was **39.3 percent** of all **income taxes**. [Tables E-4 and E-6]

We Pay Nearly as Much for Interest as for National Defense

In **1965**, interest costs were **16.9 percent** of the outlays for **defense**. In **1995**, the $232.2 billion in interest costs was **84.9 percent** of all outlays for **defense**. [Tables E-8 and E-6]

Interest Payments Nearly Equal All Domestic Discretionary Spending

In **1965**, interest costs were equal to **38.9 percent** of **domestic discretionary** spending. In **1995**, interest costs were **92.1 percent** of **domestic discretionary** spending. [Tables E-8 and E-6] In short, we are paying nearly as much to service the debt as we are for **all** law enforcement, education, environment, energy, transportation, agriculture, technology, etc., etc. **combined!**

Today's Babies Face a Tax Rate of 84 Percent

Persons born in **1900** paid about **24 percent** of their income in federal, state, and local **net taxes**. (Net taxes are taxes taken from an individual *minus* transfers given to the individual.) Persons born in **1970** will pay about **34 percent** of their income in net taxes. If current policies are kept, *persons born in 1994 and thereafter will bear a* ***net tax rate of 84 percent!*** [Table 4-6]

Ratio of Retirees Will Increase Dramatically

In **1950**, there were **7.3 persons** in the **work force** (ages 20-64) for every person age 65 or older. In **2050**, there will be about **2.7 persons** in the **work force** for every person over 65. [Table 4-1]

As the ratio of workers to retirees declines, outlays for health and retirement programs will grow while revenues decline. Also, economic growth will taper off. [Page 71]

Debt Will Rocket Skyward

In **1995**, debt held by the public equaled $3,603 billion or **50.2 percent** of Gross Domestic Product (GDP). In 2005, the debt will equal $6,333 billion or 55.2 percent of GDP. [Table 2-9.] These numbers are sobering enough, but under current policy the debt begins to rocket skyward in the second decade of the 21st Century. By **2020**, debt held by the public will equal about **106 percent** of GDP, and in **2050** the debt will be about **373 percent** of GDP (and this estimate is under one of the more conservative sets of assumptions)! [Table 4-3]

Health Care Costs Will Continue Upward

Over the past decade, expenditures for Medicare have increased at an annual rate of about 10 percent (the number of enrollees was up 2 percent). Medicaid spending has risen at a rate of about 15 percent (the number of beneficiaries was up about 5 percent). Inflation during that period ran between 3 and 4 percent. CBO projects that outlays for Medicare and Medicaid will rise by almost 10 percent a year over the next decade. (Inflation is projected at 3 percent and the number of enrollees is projected to increase less than 2 percent.) **Medicare** and **Medicaid** spending totaled **1.3 percent** of GDP in **FY 1975** and rose to **3.7 percent** in **FY 1995**. CBO projects that the share will rise to **5.9 percent in FY 2006. Medicare alone** may claim more than **8 percent** of GDP in the year **2050**. [Pages 73-74 and Table 4-2)]

Delay Makes Matters Worse

"The federal deficit has fallen substantially as a share of GDP from its levels in the early 1990s, but that **temporary phenomenon should not lull people into believing that no problem exists.** The **pressures** of an **aging population** and **rising health care costs** will become **severe** in just a **few years**. The stakes get higher when the baby boomers begin to retire. At that point, the budget deficit will begin to mount rapidly if no change in policy has occurred. **Delaying action** until then will **add increasing amounts to the debt** to be serviced and correspondingly **raise interest costs**. As those costs rise, efforts to balance the budget will have to cut the growth of spending more deeply or increase taxes more steeply. **Postponing difficult decisions now will make the choices that have to be made later even harder**." [Pages 93 & 95 (edited) (emphasis added)]

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[Source: All information in this paper was taken from the Congressional Budget Office's report of May, 1996, *The Economic and Budget Outlook: Fiscal Years 1997-2006*.]